Subcommittee on International Monetary Policy and Trade of the House Committee on Financial Services

Hearing on U.S. Policy toward the African Development Bank and African Development Fund
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Mr. Chairman, thank you for the opportunity to testify before the Subcommittee on International Monetary Policy and Trade of the House Committee on Financial Services as it examines U.S. policy toward and participation in the activities of the African Development Bank and the African Development Fund.

As an African, a Kenyan woman and Director of the 50 Years Is Enough: U.S. Network for Global Economic Justice, I welcome both the privilege and the responsibility that comes with this invitation.

50 Years Is Enough: U.S. Network for Global Economic Justice is a coalition of over 200 U.S. grassroots, women's, solidarity, faith-based, policy, social - and economic- justice, youth, labor and development organizations dedicated to the profound transformation of the World Bank and the International Monetary Fund (IMF). The Network works in solidarity with over 185 international partner organizations in more than 65 countries. Through education and action, the Network is committed to transforming the international financial institutions' policies and practices, to ending the outside imposition of neo-liberal economic programs, and to making the development process democratic and accountable. We were founded in 1994, on the occasion of the 50th anniversary of the founding of the World Bank and IMF. We focus on action-oriented economic literacy training, public mobilization, and policy advocacy.

Your letter of invitation, Mr. Chairman, asked me to address a number of specific issues and questions: the issues facing the new administration relative to U.S. interests and participation in the African Development and Fund; a comparison between the role of the African Development Bank in addressing economic development in Africa with the role of the World Bank, IMF, and other major bilateral assistance donors; the debate on grants vs. loans and lending for poverty alleviation vs. physical infrastructure; and if the African Development Bank is playing a significant role in promoting free market reforms and private enterprise, debt relief for highly indebted poor countries, and the challenge of HIV/AIDS to economic development in sub-Saharan Africa.

These are important questions which are at the heart of the future of the African continent, not only from the perspective of the role of the African Development Bank and Fund, but also of the IMF, the World Bank, and other institutions and countries that lend and provide donor assistance in Africa. I believe that in looking at these questions one of the key distinctions to make must be between intent and outcome. While the intentions of those lending and providing donor assistance to African countries are often clearly articulated - poverty alleviation, debt relief, structural and policy reforms, etc. - the question that we must ask over and over is whether the outcome matches the stated intent of policies and projects of the multilateral financial institutions.

When one looks at the realities that are experienced by Africans, as well as the peoples in other regions of the Global South (Asia / Pacific, Latin America, and the Caribbean), it is undeniable that the outcomes of implementation of structural adjustment programs, free market reforms, debt relief and privatization have failed. The fact is that aspects of these policies and programs --such as cuts in food subsidies, cuts in credit to farmers, non-food cash crop farming, user fees for health and education and water privatization -- condemn millions to hunger, malnutrition, poverty, and death.

Africans work hard and survive against many challenges. Life in rural Africa today, for the majority of people, is very similar to what I knew growing up: raising a wide range of crops, both to sell at local market and for family consumption; raising chickens or selling the family cow when extra income was needed for school fees; no electricity; dirt roads that cover you with dust in the dry season and mud in the rainy season; planting trees to fight desertification; pooling your resources with neighbors to bring piped water, a clinic, or a school to your village in the spirit of Harambee or "pulling together". And above all never losing hope: in my mother tongue we say, Gûtirî ûtukû ûtakîa -- "there is no dark night that is not followed by daybreak." This is why people never lose hope, but keep fighting and struggling for lives and livelihoods of dignity even when everything seems to be working against them. African parents, like parents everywhere, work hard to provide the basics for their families -- food, shelter, education, safe drinking water, and health care -- and hope that their children will do better than they have.

There are many questions about why Africa remains impoverished. There have been so many development projects, yet the quality of life of the majority of people seems to get worse instead of better, and the projects fall apart so quickly? The Kenya I left in 1986 to attend college in the United States was, like the rest of Africa, better off than today's Kenya. At the time the talk was about how much worse things had gotten -- higher prices, worse roads, fewer jobs, lower-quality health care and education -- in the previous few years. Sometimes economists or social commentators say a country has "hit bottom." In Kenya, Mozambique, Nigeria, Malawi, Ethiopia, and the other countries of Africa, we keep finding new bottoms, or to be more precise, that there is no bottom that can't get worse. The external debts grow even as we pay more and more to service the debt.

When I return to Kenya now to visit my family, I find that prices have continued to soar and people -- people I always thought of as "not poor"-- are unable to buy the things they thought of as necessities. People are being laid off or getting the "golden handshake" (early retirement), and university graduates routinely find no hopes for employment. New religious sects spring up to offer people some hope that all the old ways seem unable to deliver; farmers are unable to afford fertilizers, and coffee farmers choose to dump their coffee rather than accept the below-cost prices being offered them. Today my widowed grandmother cannot support herself selling coffee from her 1,500 bushes that once supported her and her ten children. In the meantime a cup of coffee costs over a dollar at Starbucks, and Kenya AA coffee sells for 10 - 12 dollars a pound! Public hospitals sleep two patients to a bed, require families to go to pharmacies to buy the medication administered to patients, as well as provide all the food for in-patients Most families cannot afford the school fees (user fees) imposed on education from nursery school to university, which often result in girl children not being educated because they are not a priority.

In this context of a continent faced with tremendous challenges that seem almost insurmountable, we must ask some questions about the role of the African Development Bank African Development Bank, now over three decades old, , an institution that was founded to finance projects that would provide the basis for employment, technology, and a way out of poverty. Instead of an Africa where promises have been kept, we see an Africa that has been in a rapid and a long decline -- an Africa that has endured worsening economic circumstances since the time of the Bank's founding. This subcommittee can help begin to chart a new direction for the African Development Bank one that would provide the basis for employment, technology, and a way out of poverty in support of African peoples' initiatives.

Sub-Saharan Africa is rich in human and natural resources, but faces many challenges: an almost unimaginable AIDS crisis, with 17 million already dead, and 25 million more infected; a lack of formal job opportunities, with government budget cuts constantly terminating more and more of the best-paying jobs; a crisis of food security, with so much of the best land devoted to export crops at the insistence of policies from the World Bank and the IMF, , leaving people vulnerable to even short disruptions in rainfall; environmental destruction that exacerbates already existing serious problems; illiteracy; conflicts and civil wars; high levels of maternal and infant mortality; and a huge debt burden.

The African Development Bank has many historical shortcomings which I will not dwell on because unlike my co-panelists I am neither an economist nor someone with experience at the Bank itself. I would just point out that the original institution now lends to very few sub-Saharan countries; its "soft-loan" affiliate, the African Development Fund, has a wider reach. This is so because most of the continent's countries don't qualify for the Bank's market-rate loans. The Bank itself, even as it recovers from its management crisis of the 1990s, is losing relevance to most of the people of the continent.

I want, then, to focus today on what I believe most Africans themselves would say about development and economic recovery on our continent. In a nutshell it's this: **it isn't working**. The way development is done now, and has been done since the beginning of Africa's economic decline, has harmed Africa more than it has helped it. Our access to services, our employment prospects, our nutritional standards, our overall standard of living have all been declining since 1980.

What changed around 1980? Certainly there was the oil price crises of the 1970s, which hit many African countries very hard. And the worldwide bump in interest rates as the U.S. Federal Reserve fought inflation here also had a negative impact on Africa countries' debt burdens. The debt crisis that swept Latin America in the early 1980s also hit Africa. The differences were, first, that the amounts our countries owed were not so large as Mexico's or Argentina's debts, so we didn't make headlines, and second, that the crisis, which despite the lower numbers was just as serious for us in proportion to the size of our economies, has never stopped.

Sub-Saharan Africa continues to pay back more to the World Bank and the IMF than it gets from those institutions. And despite this tremendous diversion of resources, and in several cases despite even a country's acceptance into the IMF/World Bank "debt relief" program, our debt levels continue to rise. Social services continue to be cut, people continue to be laid off, prices continue to rise.

Indeed, it is obvious that development is not working for Africa. And while African governments and even the African Development Bank have made many mistakes that have contributed to the failures of development, I believe we have to look deeper. We have to recognize that since around 1980, most of the governments on the continent have been attempting to implement programs designed by the International Monetary Fund and the World Bank. They have had little choice in the matter: to get any access at all to capital and international markets, they have had to accept the recommendations of those institutions. The African Development Bank Group itself defers to, accepts, and enforces the policies of the IMF and World Bank.

The governments haven't always implemented these "structural adjustment" programs completely, but the core of the economic policies of these countries has been the IMF/World Bank vision of "sound economic reform": polices that liberalize trade laws, abolish subsidies, make labor "flexible" (meaning easier layoffs and lower minimum wages), privatize government-owned companies and industries, open up economies to multinational corporations, provide incentives like high interest rates for international investment (even when those same rates exclude small farmers and businesses from accessing capital), slash public services, and re-orient entire economies away from subsistence and toward exports.

I am less interested in talking about economic ideology or intentions here than I am in talking about actual results. The results of these programs have been devastating. Attached to my testimony is a chart prepared by a World Bank staff economist which demonstrates quite graphically the almost perfectly inverse relationship between structural adjustment programs and growth. The point here is not whether different incentives are needed, whether governments are to blame for not adhering to the programs, or how some changes in emphasis might produce better results. We have in fact spent years arguing with the institutions and government officials about precisely these questions. What is important here is creating change. How do we end the user fees that these programs have mandated for health care and education, which prevent girls from going to school and the sick from getting medicine? How do we get reasonable credit for farmers so they don't have to sell their land to large agricultural businesses and move into the cities? How do we build an Africa where people have enough to eat, with rising levels of literacy, decent health care, access to water, and environmentally sustainable practices?

It is not going to happen through more of the same. Structural adjustment conditions imposed by the IMF and World Bank are no less harmful when imposed by the African Development Bank or African Development Fund. Loans for development to already severely-indebted countries do not add less to that debt burden if they come from Abidjan instead of Washington.

The market plan has not worked for Africa. We need a Marshall Plan. When Europe was devastated by World War II, the U.S. recognized that lending to devastated economies was an illogical way to develop, since the debt would continue to burden the fragile beginnings of new industry. Instead, recognizing its interest in a healthy European economy, it implemented the Marshall Plan, moving about two percent of the U.S. GNP to Europe for free. Africans and other peoples of the Global South need nothing less and nothing more than what was accorded Europe. Africa, which was brutalized by colonialism, with its borders re-drawn, its peoples sold as slaves, and its resources exploited for the profit of foreign interests, became "independent" in the 1950s and 1960s and told to develop itself. As assistance it was given some grants and a lot of loans. When these countries, which had never been part of the global economy on an equal footing, got into debt, they were given more loans -- like taking out one credit card to pay off another. As that debt treadmill continued, more and more conditions were put on the countries. They were told they could be just like the U.S. or South Korea by following those countries' policies. The trouble was that those countries developed with the aid of protectionist or isolationist policies. Africa was thrown to the mercies of the markets after a few years of independence. The debt we incurred was used as a coercive weapon to force us to accept policies representative governments would never have independently decided to implement. And predictably the policies have failed.

The much-vaunted Heavily Indebted Poor Countries (HIPC) initiative has fallen short of the goals of relieving Africa's debts. Some beneficiaries of the HIPC Initiative will pay as much, if not more, in debt service after "graduating" from the program. After World War II, as the Marshall Plan was providing the kickstart for European economies, Germany negotiated terms that allowed it to pay no more than 3.5% of its annual export income on its foreign debt, and nothing at all if it did not have a trade surplus. In Africa, countries have found themselves paying 40, 50, or 60 percent of their annual export income on debt. The Heavily Indebted Poor Countries (HIPC) Initiative of the IMF and World Bank, when it accepts countries into its scheme, and when it works as it promises to do, aims to reduce those payments to between 10 and 15 percent of annual export income, with no provision for years when a trade surplus cannot be achieved.

People in Africa think the system is fixed. They see new economic programs that welcome more foreign companies into their countries and offer incentives to grow more cash crops or work in assembly plants, but they still see their standard of living decline. They hear that the African Development Bank will be rescued from its morass by wealthy governments, but they aren't surprised to find that it operates as a mini-World Bank, imposing the same conditions for the same kind of projects.

Africa needs debt cancellation -- one hundred percent of the debts owed by these countries to their multilateral creditors. The IMF and World Bank have tremendous resources. Given that the people of Africa are slipping, and its children are dying, we fail to see why those institutions continue to plow their money into private sector "investments" in Asia and Latin America, all the while declaring that Africa and the end of poverty are their overriding concerns. They say they cannot "afford" to cancel the debts owed them, but their spending elsewhere suggests otherwise, as did an independent audit released last week by the Drop the Debt campaign in the U.K. We believe that they can not only drop the debt owed them, but that they can make a sizable contribution to wiping out the debts owed the African Development Bank Group.

If Africa is to move forward and overcome the present challenges, bilateral and multilateral funders must move from loans to grants. Loans create more debt in the midst of trying to address existing debt problems. It does not make sense to be creating debt with one hand while trying to eliminate it with the other hand.

Africa needs freedom from structural adjustment conditions, which have failed for over twenty years but keep being revised, renamed, and expanded by the multilateral institutions.

Finally, Africa needs its Development Bank to be something other than a surrogate or junior partner to the World Bank. I am not suggesting that it become a charitable foundation. I know that it will not have unlimited resources. What I am suggesting is this: that the intractable economic crisis of Africa be recognized as such, and that the African Development Bank be given a mission to design and implement creative solutions. These programs should be designed independently with the particular circumstances of a specific country, or specific part of a country, taken fully into account. And these programs should put in place bold new ideas, breaking out of the failed economic models recommended for so long by the IMF and World Bank. Rather than finding new ways to privatize or liberalize, pick a province or district in Mozambique, say, and provide the government there the resources to attract dedicated and intelligent individuals who know the area well, and see if a government-owned cashew processing facility can provide employment and make a reasonable profit.

There are hundreds upon hundreds of alternative development models that have not been implemented for lack of resources and expertise. There are community level initiatives throughout Africa that are struggling and have not seen widespread implementation because of lack of resources. Africans are not looking for handout;, all they want is the chance and the support to enable them to succeed.

I am not here to propose a new model to replace the old one because I believe that there can be no single model of development that will work for all. I believe that geography, culture, size, climate, amount of available resources, and political system affect the success or failure of a development or economic model. What we do see is that the current system does not work, and until we find a better one the people of Africa will be living in increasing poverty. The only way to change that is to allow the people of Africa to experiment with new approaches to development. Some will fail, certainly. But how much worse than today's failures will those be? When we find the ones that succeed, we will surely be on the way to finding solutions that can be applied to more and more of Africa.

The African Development Bank Group, which today does little that is unique to it, is uniquely positioned to do this work. It is the only major development bank on the continent, and it is staffed by nearly a thousand African experts. So long as it exists, it is surely a waste to have it duplicate the kind of work the World Bank does on a larger scale in Africa. I hope that this subcommittee, in considering future U.S. involvement at the African Development Bank Group, will consider recommending that this institution take advantage of its unique capacities and adopt a mandate to innovate and experiment in addressing the economic crisis that deprives so many Africans of hope, opportunity, and even life itself.

In the meantime, while Africans struggle and seek out their future and the future of their continent, it would serve them well to have the support of the rest of the human family. We need opportunities for people and countries to determine their own future, not more hoops like the new Poverty Reduction Strategy Process (PRSP) of the IMF and World Bank. We need grants to allow Africans to follow dreams of development and get a fair chance to succeed without mortgaging our grandchildren's future to more loans and therefore more debt. We need credit for farmers growing food crops, not more land reform programs designed by bureaucrats who have never visited a small rural farm, let alone been a farmer. We need access to basic health care, not more user fees which result in many children dying because their parents cannot afford three cents for immunization. We just need a chance to succeed and to live with dignity.

I strongly believe that the role of African institutions is to work to effectively address the challenges that face Africa. Instead of more reforms, what is needed is clinics stocked with drugs and workers; schools with textbooks and trained teachers; safe water for all instead of privatization contracts for multinational corporations; free public education for African children just like for children in the U.S. states; policies that put people before profits. There is a proven track record of investment and political will in the campaigns against polio, smallpox, and the campaign to immunize the world's children against the major vaccine preventable diseases (measles, tetanus, diphtheria, whooping cough, polio,). We went from covering about 5% of the world's children in 1980 to 80% in 1990, and have saved about three million children a year. Not only do we know what needs to be done, we know how to do it, and we have done it in a number of instances. The same can be true for Africa. Again I urge you to act in solidarity with African peoples and watch them succeed!

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